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VERY SECRET (ARMY)

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Ex # 2

From the Chief of Staff of the Kwantung Army
To the Vice-Minister of War
(Kwan San 520)

In view of the present situation of Manchukuo, it is very natural and (seal) a matter of urgent necessity that Manchukuo should take over at this time (seal) the custom houses, including that at Dairen. We consider it a matter of urgent necessity to thoroughly abide by the great policy of supporting Manchukuo, to adopt the undermentioned Manchukuan opinions to give tacit consent to its enforcement and to consistently give her strong support.

Furthermore, we must keep this matter absolutely secret until its enforcement by Manchukuo. Kindly note that the Governor of Kwantung Lease Territory, acting Consul-General Morishima and Director Fukumoto of the Dairen Customs House, fully understand this.

Particulars:

1. Manchukuo's finance is now confronted with a great difficulty in realizing the revenues of 64 million yuan which had been originally estimated at the time of the founding of the State, on account of difficulties in maintaining peace and order. Since this amount included custom revenues of 19 million yuan and Opium monopoly revenues of about 10 million yuan, Manchukuo would find herself in a sad plight with estimated expenditure of 93 million yen, unless these two items are speedily dealt with so as to raise revenues.

Accordingly, we have decided to take over all the custom houses in Manchukuo, including that of Dairen, under the policy of guaranteeing treatment and positions to their personnel, and of collecting the customs revenues, (marginal notation in red ink: The part securing foreign loans to be untouched) except that part which secures foreign loans. Above all, the amount of revenues of the Dairen custom-house constitutes about one half of the total customs revenues of (marginal notation in red ink: the increase in revenues resulting from the seizure of Dairen custom house is 7 million Liang) whole Manchukuo (24 million Huiyuan) and is expected to exceed by as much as 7 million Liang that part of the customs revenues about 5 million Liang which secures the foreign loans for which Manchukuo holds herself responsible. Accordingly, even if Manchukuo acquire the customs revenues of all the custom houses, except that of Dairen, she would be able to obtain annually only 7 million Liang (four letters are illegible), which would be unbearable to her. Therefore it is intended to take over the Dairen custom house at all costs. However, if during this course the Nanking Government should give in so as to agree to the First Draft which was agreed upon by the United Conference of the Five Provinces sometime ago, we are ready to give assent to it.

2. The method of taking over the DAIREN custom-house is to have its personnel betray China by joining Manchukuo. If the Chinese side should despatch new personnel and attempt to collect the customs separately and further attempt to shut down all the custom houses in Manchukuo, we shall be obliged to bring the Chinese endeavor in DAIREN to naught through intimidation by collecting customs at Wafang-tien, etc. At the same time we intend to oppose it, through arrangements made beforehand by appointing simultaneously new personnel for all the custom houses in Manchukuo, including that at DAIREN.

3. We hope that in that case the Japanese Government would maintain a friendly attitude by giving tacit consent to Manchukuo's management of the customs business in Dairen, and that she would not interfere with Manchukuo's management of the customs as the result of protests from China.

We believe that Japan and Manchukuo will not be placed in a disadvantageous situation internationally even in the case of connivance, the reasons being as follows:

- a) The first draft, which Manchukuo intends to accept with great forbearance, preserves what Maizo calls "customs integrity." And as it is rumored that Manchukuo is purposely opposing it and obstructing^{in spite of} compromise^{its} no objections on the part of Maizo, Manchukuo's present resolution is an unavoidable last resort. The fault is entirely on the other side.
- b) If Japan does not give support, Manchukuo will be obliged to begin collecting customs at Wafangtien without taking into consideration the damage to DAIREN. Accordingly, notwithstanding the provisional agreement pertaining to the DAIREN Customs, Japan will be obliged from the standpoint of self-defense to give tacit consent to Manchukuo's actions in DAIREN. Moreover, at the present time when Japan has de facto recognized and supporting Manchukuo, Japan should be able to regard the DAIREN custom house as belonging to Manchukuo. Furthermore, in case the personnel of the custom houses pledge fidelity to Manchukuo, it is doubtful whether it can be said that Japan is violating the Customs Agreement, even if she should give tacit consent to Manchukuo's actions.
- c) Public opinion will interpret as a matter of course that Japan, which has de facto recognized and is supporting Manchukuo, should assist in the seizure of the DAIREN customs which are absolutely necessary from the financial standpoint of Manchukuo.
- d) Manchukuo's financial position does not permit her to wait for the departure of the Far Eastern Enquiry Commission of the League of Nations. Not only that, there is no need for Manchukuo to feel, in the least, constrained toward the League in taking urgently necessary financial measures, which are only natural. It is rather advantageous to take this emergency action during the stay of the League's Enquiry Commission in order to display the

independence of Manchukuo, and to indicate the firm resolution of Japan and Manchukuo in respect to the Manchurian problem.

4. In short, Manchukuo thinks that China is continuing to illegally collect customs because the DAIREN custom house happens to be located in the Kwantung Leased Territory, in spite of the fact that the DAIREN custom house, like the other custom houses in Manchuria, should properly belong to Manchukuo. If Japan should formally recognize Manchukuo at once, and deliver the above mentioned custom house to her, there should be no problem. However, if the recognition of Manchukuo be delayed under certain circumstances, it would be necessary for her to give a great deal of support to Manchukuo.

(Not to be shown to others.)